

**MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE**

Tuesday, September 16, 2014 - 1:00 p.m. - Room 210 Senate Building

Members Present:

Sen. Lyle W. Hillyard, Co-Chair
Rep. Melvin R. Brown, Co-Chair
Sen. Jerry W. Stevenson, Vice Chair
Rep. Brad R. Wilson, Vice Chair
Sen. J. Stuart Adams
Sen. Gene Davis
Sen. Patricia W. Jones
President Wayne L. Niederhauser
Sen. Karen Mayne
Sen. Ralph Okerlund
Sen. Luz Robles
Rep. Joel K. Briscoe
Rep. Rebecca Chavez-Houck

Rep. Tim M. Cosgrove
Rep. Brad L. Dee
Rep. Don L. Ipson
Speaker Rebecca D. Lockhart
Rep. Jennifer M. Seelig

Members Excused:

Sen. Peter C. Knudson
Rep. Gregory H. Hughes

Staff Present:

Mr. Jonathan Ball, Legislative Fiscal Analyst
Mr. Steven Allred, Deputy Director
Ms. Greta Rodebush, Legislative Secretary

Note: A copy of related materials and an audio recording of the meeting can be found at www.le.utah.gov.

1. Call to Order/Approval of Minutes

Co-Chair Hillyard called the meeting to order at 1:10 p.m.

MOTION: Rep. Brown moved to approve the minutes of July 15, 2014. The motion passed with Sen. Davis, President Niederhauser, Sen. Robles, Sen. Stevenson, Rep. Dee, Rep. Cosgrove, and Rep. Chavez-Houck absent for the vote.

2. Federal/Non-federal Grants

Mr. Evan Curtis, Governor's Office of Management and Budget (GOMB), presented the Federal/Non-Federal Grants Report dated September 16, 2014. He reported that there were four new federal grants and two new non-federal grants requiring legislative action. The Governor's Office approved nine new federal grants and four continuations/revisions of existing grants.

In addition, Courts submitted a revision to the Court Improvement Grant (CIP) for legislative approval.

Co-Chair Hillyard asked about the Department of Environmental Quality's Bountiful 5-Points PCE Plume grant approved by the Governor's Office and the Court Improvement Grant approved by the Judicial Council.

Mr. Curtis, Mr. Gary Syphus, and Mr. Rick Schwermer, Assistant State Court Administrator, addressed his questions.

MOTION: Rep. Brown moved to recommend the approval of the federal and non-federal grants as shown on page 1 of the handout entitled, "Federal/Non-Federal Grants Review and Approval" under the heading, "Grants Requiring EAC Review and Recommendation" and dated today, September 16, 2014. The motion passed unanimously with President Niederhauser and Rep. Robles absent for the vote.

3. DHRM Internal Service Fund Proposal

Mr. Brian Fay, Fiscal Analyst, LFA, presented the Issue Brief, “Dept. Human Resource Management - ISF.” The brief addresses the Department of Human Resource Management’s (DHRM) proposal to shift the majority of its appropriated line item costs into the Internal Service Fund (ISF) and to increase rates accordingly. The DHRM was looking for some direction from the committee in moving forward with this budget request.

Mr. Fay explained that DHRM is currently operating under two line items: an appropriated line item and an internal service fund (ISF). The department uses a direct General Fund (GF) appropriation of \$2.6 million to fund administration, policy, and information technology. Internal service funds are funded through rates charged for specific services and are used to provide HR and payroll services. Mr. Fay explained that DHRM is proposing to shift the majority of the appropriated line item into the ISF.

Mr. Fay highlighted the advantages and disadvantages of shifting to an ISF. He mentioned the utilization of other funding sources (federal funds and restricted accounts), increased efficiency due to consolidation of services, and more accurate accounting of the full cost of providing a service. Mr. Fay noted that shifting DHRM’s appropriated line item into an ISF could potentially reduce General Fund expenditures between \$0.3 million and \$1 million annually.

The disadvantages of shifting to an ISF include less direct legislative control and more complexity in reporting. In addition, some agencies who rely on restricted accounts and restricted revenue sources, may not be able to absorb rate increases.

Agency response

Ms. Debbie Cragun, Executive Director, DHRM, stated that moving to a full ISF would streamline operations within DHRM, and would more readily align the rates (actual cost of HR services) to the appropriate funding sources at each agency level.

Ms. Cragun indicated that the Governor’s Office is still contemplating whether or not to move in this direction. She noted that the rate committee had recently approved two sets of rates, one based on a partial ISF and one based on the full ISF. Ms. Cragun said that DHRM is ready to implement either rate pending the policy decision of the Governor’s Office and the Legislature.

Mr. Ben Buys, Finance Director, DHRM, provided more detail about DHRM’s budget. He said that moving entirely to an ISF will have a significant impact on the agencies, particularly agencies with restricted funds, if rates increase. The total rate impact to the agencies would be \$2.9 million (\$2.6 million GF and \$300,000 FY 2015 compensation package). Mr. Buys indicated that the new proposed rate would also impact the judiciary, legislative offices, and the Attorney General’s Office. He showed a table of the rate history and the proposed FY 2016 rates under the full ISF scenario.

Mr. Buys highlighted some of the benefits of shifting to an ISF. He mentioned the savings to the General Fund and the utilization of additional federal funds. The ISF would also align the cost of human resources with appropriate revenue sources, remove the bifurcated nature of the DHRM budget, increase the maximum retained earnings allowed for DHRM, and provide continued accountability.

Ms. Cragun clarified that DHRM was not asking for a budget increase other than the compensation package that was approved for the current fiscal year.

Speaker Lockhart asked about maintaining accountability, the role of the Governor's Office and the Legislature in the decision making and appropriating process, the reference to more reliance on federal money, and the Legislature's role on the rate committee. Mr. Buys responded to her questions.

Mr. Ball explained that the Governor's Office includes the rate committee's recommendations, modified or unmodified, in the Governor's Budget Recommendations. The Legislature ultimately sets the rates in an appropriations act, controls the number of FTEs, and authorizes capitol outlay.

Mr. Buys clarified that by shifting appropriated line item costs into an ISF, the General Fund would potentially realize a savings. However, he confirmed that this shift would result in a greater reliance on federal funds for the function of state government.

Mr. Fay noted that the Legislature may choose to appropriate a portion of the General Fund savings back to the agencies to offset ISF rate increases.

Mr. Ball also pointed out that an ISF can run a deficit and can borrow against the General Fund, which could become problematic. He reiterated that shifting to an ISF would give DHRM more flexibility and the ability to collect from other revenue sources besides sales tax and related General Fund revenue. At the same, shifting to an ISF would give up some of the accountability you get from a direct appropriation to a line item.

Sen. Adams asked how the ISF would work in a declining economic cycle.

Rep. Wilson spoke in support of the current budgeting process and expressed his reluctance to embrace DHRM's budgeting proposal.

Co-Chair Hillyard commented on the importance of ISFs being at attention so that agencies do not have to pay more than they have to.

The committee did not take any action on this issue.

4. Public Education Per Pupil Spending and Revenue

Mr. Ball offered some introductory remarks about per pupil spending and revenue and explained the purposes of today's presentation, "Per Pupil "Spending." The presentation: 1) explains per pupil measures; 2) presents outcome measures that provide context for the input measures; and 3) provides answers to what else matters besides spending, shows what else impacts outcomes, and shows where we as a state.

Ms. Angela Oh, Senior Statistician, LFA, defined the two main input measures for per pupil spending: revenue per pupil and expenditures per pupil. She explained four subcategories of revenue per pupil and reviewed charts showing how revenues in Utah compare with the other 50 states.

Ms. Oh explained current expenditures per student (excluding capital outlay, interest on school debt, and state administration).

Ms. Oh also reported on the outcome measures of student achievement, for Utah as compared to the rest of the nation.

Dr. Thomas Young discussed the intervening variables or factors that predict student performance and reviewed the results of a random effects panel regression to track student achievement by state across time. Findings show that the best predictors for below-average student performance are the percentage of households headed by a single parent and English language learners. Factors that correlate with above-student performance are educational attainment of parents and personal income per capita. Factors with small and generally insignificant results include the student-to-teacher ratio and federal, state, and local spending.

Dr. Young used scatter plots to show where Utah stands in regards to each of the demographic factors.

Mr. Ball highlighted the following “take aways” on the per pupil spending and revenue: 1) There are many measures of resources per pupil and they do not necessarily measure the effectiveness or outcomes of our education system; 2) Input measures are reported on a two-year lag and do not take into account new funding for education; 3) Utah continues to be at or near the bottom in all categories pertaining to revenue and spending and that this hasn’t changed in 2012 data; 4) Education achievement is a better indicator of success; 5) There are other factors that influence achievement that work in Utah’s favor, and these factors are changing; 6) Policymakers should consider all inputs collectively and target resources to highest impact programs/projects.

Mr. Bruce Williams, Utah State Office of Education, explained how public education data gets to the two major federal reporting agencies, and why revenues and expenditures are different.

Rep. Briscoe commented on the NAEP 4th and 8th Grade Math and Reading scores, which he felt did not speak highly of Utah’s educational success.

Sen. Robles asked why the state had not applied for a preschool development grant that would have Utah receiving up to \$15 million, particularly when legislators had worked so hard to pass H.B. 96, “Utah School Readiness Initiative,” during the 2014 General Session. Ms. Tami Pyfer, Education Advisor to Governor Herbert, addressed her question.

Sen. Jones mentioned that the Utah Foundation over the last several years had published research regarding the funding effort and the percentage of money that goes into public education. Not too long ago, Utah was in the top 10 percent, and now Utah is in the bottom third. Mr. Ball indicated that LFA did not include funding effort in its study but could certainly do so. Sen. Jones felt that it would be helpful to look at funding effort as well.

Rep. Chavez Houck asked if more research had been done on the impact sibling success in completing college has on students being able to excel in their academic careers. Commissioner Dave Buhler, Utah System of Higher Education (USHE), responded that no additional research has been done subsequent to the report prepared by the Dan Jones Cicero Group for Prosperity 2020.

Mr. Ball concluded that per pupil spending should not be our target, but rather, student achievement. He noted that spending may increase, but more importantly, we should be looking at increasing achievement and how we achieve that as we are making investment decisions.

5. Higher Education State Appropriations Compared to Tuition and Fees.

Mr. Spencer Pratt, Fiscal Manager, LFA, discussed the Issue Brief, “Higher Education Tuition and State Tax Funding.” The report looked at three issues: 1) the historical relationship between changes in state tax funding and tuition increases, 2) differences in the amount of tuition appropriated and the amount enacted by the institutions, and 3) comparisons of tuition at USHE institutions and similar institutions in other states.

Since 2000, state tax funding has increased 62 percent, while tuition has increased 287 percent. For the past five years, total USHE funding has been approximately 50 percent from tax funds and 50 percent from tuition. The report found that two-thirds of the total institutional revenues and expenditures are non-appropriated and come from grants, contracts, auxiliary services, federal appropriations, gifts, contributions, investment income, and other sources.

The report also states that because the State Board of Regents approves tuition after each general session, the amount of tuition included in the appropriations acts is less than that implemented by the institutions. In addition, tuition at the USHE universities generally is lower than the average of similar institutions in the Western States (WICHE), Rocky Mountain states, and peer institutions across the country. Tuition at each of the community colleges is higher than the corresponding averages in other states.

Dr. Thomas Young presented statistical information to illustrate the year-over-year growth in tuition rate and state funds. Findings show that the correlation between increases in new state tax funds and tuition increases is statistically insignificant. Better predictors of future tuition increases include previous tuition increases, number of FTE students, wage growth, and inflation.

The Analyst recommends the following: 1) The Legislature should consider including all revenue sources and expenditures in appropriations acts, and 2) The State Board of Regents should submit tuition increases as part of its plan of financing when it presents its budget.

Commissioner Buhler, USHE, introduced Mr. Dan Campbell, the newly elected chair of the Utah State Board of Regents and talked about the good faith partnership between the Utah Legislature and Higher Education. He referred to a recent national study that ranked Utah No. 2 in the nation for the number of graduates per total dollars spent. Commissioner Buhler commented that USHE continues to work on a number of completion strategies to increase the number of students who leave college with a diploma.

Commissioner Buhler discussed tuition increases, the match requirement for compensation, Tier 2 tuition, and the reporting of all funding sources. He indicated that if USHE were required to include the entire higher education budget in appropriations acts, USHE would be submitting a lot of estimates as a result of the fluctuations in outside revenue sources.

President Niederhauser remarked that on a per student basis, tuition has outpaced inflation. He was interested in knowing what is driving the increases in higher education costs that go above inflation.

Co-Chair Hillyard recognized Rep. Brown for an announcement regarding, “FY 2014 Preliminary General & Education Fund One-time Surplus.”

Rep. Brown reported that as of June 30, 2014, after taking into account adjustments and deposits to various funds, there was a total one-time revenue surplus of \$112 million for FY 2014. The General Fund shows a revenue surplus of \$7 million and the Education Fund, a revenue surplus of \$105 million.

Rep. Cosgrove commented on the high percentage of servicemen and women who do not take advantage of the GI Bill.

Co-Chair Hillyard indicated that the report would be referred to the Higher Education Appropriations Subcommittee for further review.

6. Statewide Data Alliance and Utah Futures Report

Ms. Oh presented the Issue Brief, “Senate Bill 34 - Statewide Data Alliance and Utah Futures.” The bill consists of two main parts, Utah Futures and a statewide data system. S.B. 34 amended provisions related to Utah Futures and established an evaluation panel to determine whether any or all components of Utah Futures should be outsourced to a private provider. The bill also appropriated money to support the statewide data system.

Ms. Tami Pyfer presented the evaluation panel’s report to the Executive Appropriations Committee, “Report on the progress of implementing SB34.” Ms. Pyfer gave an overview of evaluation panel activities and explained the difference between Utah Futures and the Statewide Data Alliance. She discussed UtahFutures 2.0 along with security procedures, the pros and cons for using the UtahFutures model versus an off-the shelf product, privacy policies, and performance measures.

Mr. Phil Dean, GOMB, distributed the handout, “UtahFutures II Competitor Review Matrix (September 2014).”

The evaluation panel recommended that the development of Utah Futures continue and that it be maintained in-house. The panel felt that Utah Futures should be a Utah-specific system, developed for students and residents of Utah, and managed and controlled by Utah agencies. This arrangement will enhance the State’s ability to secure user (student) data by not having to deliver the data to an outside vendor. The site will be hosted by DTS with oversight under the Governor’s Office.

Ms. Pyfer indicated that Utah Futures is putting together a supplemental request for funding to be able to continue to operate through the end of the year. This request will be followed by an ongoing request between \$1.4 and \$1.7 million.

Rep. Seelig stated that the Women in the Economy Commission has identified Utah Futures as an excellent tool to help women and girls make good decisions related to education and career options.

President Niederhauser asked about staff access to the Utah Data Alliance. Ms. Pyfer responded that this issue is requiring additional follow-up and that it is imperative that staff and other entities have access to the data.

7. Unaccompanied Immigrant Minors in Utah

Mr. Stephen Jardine, Fiscal Analyst, LFA, presented the Issue Brief, “Unaccompanied Alien Children on the Southern U.S. Border.”

The U.S. Department of Health and Human Services (HHS) is responsible for the primary care and custody of unaccompanied children. The Office of Refugee Resettlement (ORR) within HHS operates about 100 short-term, state-licensed shelters throughout the U.S. for these children. Federal law requires that ORR feed, shelter, and provide medical care for unaccompanied children until they can be released to safe settings with sponsors (usually family members) while they await immigration proceedings.

Mr. Jardine noted that between January 1st and July 31st 2014, HHS released 85 unaccompanied children to sponsors in Utah (53 within Salt Lake County). The total number of children released to sponsors nationwide during that same time period was 37,477. The federal government estimates about 60,000 unaccompanied children will be released to sponsors in 2014.

Mr. Jardine indicated that the State of Utah’s involvement includes: 1) providing public education for unaccompanied children who are placed with a sponsor and attend public schools, and 2) licensing private shelters where unaccompanied children initially stay if a shelter is located within the state. There are no shelters currently located in Utah.

Mr. Jardine clarified that sponsors do not receive any financial stipend for the care of these children. Unaccompanied children are generally ineligible for most public benefits, but could receive certain services, such as charity care from medical providers.

8. Other Business/Adjourn

The annual report for the Rocky Mountain Center for Occupational and Environmental Health was included in the binder for committee review.

Co-Chair Hillyard recognized Rep. Seelig for a motion.

MOTION: Rep. Seelig moved to adjourn. The motion passed unanimously with Sen. Stevenson, Sen. Adams, Rep. Brown, and Speaker Lockhart absent for the vote.

Co-Chair Hillyard adjourned the meeting at 3:30 p.m.